Howard County
MARYLAND

SPENDING AFFORDABILITY ADVISORY COMMITTEE REPORT

Fiscal Year 2007

Spending Affordability
Advisory Committee

Fiscal Year 2007

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Raymond Brown, Chief Business Officer, Department of Education
Lynn Coleman, CPA, Dean of Administration, Howard Community College
Sharon Greisz, CPA, Director of Finance
Raquel Sanudo, Chief Administrative Officer
James Vannoy, Assistant to the County Executive
Ronald S. Weinstein, CPA, County Auditor
Jonathan R. Seeman, Budget Administrator, Chair of the Committee

Howard County Maryland
Spending Affordability
Advisory Committee
Report For Fiscal Year 2007

January 2006

I. Purpose

County Executive James Robey renewed the Spending Advisory Committee in November 2005. His charge to the Committee was to:

1. Review in detail the status and projections of revenues and expenditures for the County, not only for fiscal year 2007, but also for fiscal years 2008 through 2011.

2. Evaluate future County revenue levels and consider the impact of economic indicators such as changes in personal income, assessable base growth, and other data which the Committee considers applicable.

3. Evaluate expenditure levels with consideration of the long-term obligations facing the County, and the best way to pay for them.

4. The Committee shall present to the County Executive, on or before February 3, 2006 a report including:

    a. Projections of revenue for the upcoming fiscal year
    b. A recommended level of new County debt authorization.
    c. The anticipated effect of the Committee's budget recommendations on future budgets.
    d. Other findings and/or recommendations that the Committee deems appropriate.

II. The Challenges Facing the County

Economic conditions in the County have stabilized and improved over the past few years as the housing market has remained strong and personal income has shown strong growth. The County has essentially recovered from the difficult fiscal period of FY2003-2004. Prior to that time, the County experienced large surpluses as revenues from income tax capital gains exceeded expectations. When the "capital gains bubble" on Wall Street collapsed the opposite happened. Revenues from capital gains declined so rapidly that the County faced revenue shortfalls. To compensate, agencies in the County reduced expenditures and postponed or cancelled discretionary purchases and routine maintenance items.

Over the past two years, the effect of the capital gains bubble has dissipated and the local economy has participated in the national economic expansion. While economic conditions have stabilized, these continue to be challenging budget times for state and local governments, and Howard County is no exception. The demands for additional spending, particularly in education and public safety, have not slowed. The State of Maryland is also experiencing strong growth in sales and income taxes, and the FY07 State budget is expected to show significant growth beyond that of recent years. However, even with that current growth, the State projects deficits in future years.

The challenge the capital budget poses is also daunting. Despite the efforts of the County government to slow the pace of new development, the County continues to face pressures to fund needed schools, parks, facilities for fire and other County services, transportation improvements, storm drains and infrastructure maintenance. The level of funding requested for capital expenditures is likely to translate into future debt service payments in the operating budget far beyond what the County can afford. This leaves the questions; -- what level of service do County residents want and how much are they willing to pay in taxes and fees to afford those services? What are the identified demands on County services and facilities? How many bonds can the County afford to include in the budget without jeopardizing its bond ratings or impacting the ability to afford other services? These are the issues the Committee faced during its deliberations.

III. Background and Forecasts

A. Background

In Howard County, spending affordability committees have been presenting reports to County executives since the late 1980's. During that time the Howard County economy has gone through several economic cycles. The changing local and national economy has made it clear: to live within its means, the County must carefully monitor the use of tax dollars and attempt to accurately project future revenue growth. The Committee has included a section in the report defining the debt capacity of the County based on several measures of debt affordability. This Committee's task has been to assess the County's ability to repay bond debt without compromising the ability to fund other needed expenditures. This review is an important element of the budget process and includes recommendations of the Committee regarding how much new debt the County can issue without overburdening itself with debt service payments.

In past reports, the County has examined four statistical measures to determine debt capacity. However, the Committee decided that while retaining the measures as guidelines for comparison purposes, the guidelines would not be the central focus of the report. Those measures, which are listed in Appendix I of this report, indicate that the County can afford a certain level of debt, but they do not take into account other spending needs of the County, and what impact increased debt service payments would have on other services. Instead, the Committee reviewed a computer model, developed by the Budget Office that made projections of general fund revenue growth and future levels of spending for County agencies. It then looked at different growth scenarios to determine what different levels of debt would have on the ability of the County to balance the budget within those parameters and maintain a reasonable fund balance. The Committee used this model to reach its conclusions and recommendations for this report. The complete model is included in Appendix II.

B. How the Committee approached its task

The Committee examined the economic climate in the County to determine its impact on future revenue growth. In particular the Committee considered the impact of personal income growth, real and personal property taxes, and the impact of the national and State economy. As part of its task, the Committee met with John Hopkins, Assistant Director for Applied Economics at the Regional Economic Studies Institute (RESI) at Towson University. RESI presented information relating to the labor force, housing statistics, unemployment, and other economic data for Howard County and the State of Maryland (see Appendix III). The Committee also heard a presentation by Howard Levenson, Supervisor of Assessments for Howard County, in which he discussed the process for assessments and property taxation as well as trends in assessments for the county and statewide. A presentation was also made by Joseph D. Mason, Senior Director, Fitch Ratings, regarding the credit rating process, rating criteria in general and factors relating to the determination of Howard County's credit rating.

Part of the Committee's process as it relates to a determination of the appropriate bonding level involved a consideration of some of the various capital needs of the County and the

Board of Education. The Committee heard from Jim Irvin, Director, Department of Public Works, regarding County capital projects and the status of the County's infrastructure. This presentation showed significant future demands as Howard County, like many other jurisdictions, face aging roads, bridges, facilities and overall infrastructure. A presentation was also made by Raymond Brown, Chief Business Officer for the Howard County Board of Education regarding current and projected public school enrollments and capital needs (see Appendix III). The Committee discussed issues relating to continued school system capital needs in light of the projected slowing of enrollment growth. The Committee also reviewed projections of revenues and expenditures, along with the assumptions, prepared by the Howard County Budget Office.

C. The National and Local Economy

Most economists are predicting the economy will continue to show reasonable growth during calendar year 2006. Most of them also believe healthy job growth will continue to be a strong factor in the continued economic expansion. The housing market has remained strong, though there are some indications of a slowing in home sales and in home price escalation. The questions the Committee had to consider were how will this projected growth affect the Howard County economy, and how will it affect the revenues the County collects?

Eighty five percent of the County's general fund revenues in FY06 come from local property and income taxes. These two revenues largely determine the level of budget expenditures. Because of the way the assessment process works in Maryland and because of the five percent assessment growth cap the County has implemented, property tax revenues are not subject to short term fluctuations in the economy. This leaves the income tax and the growth in personal income that largely determines income tax growth, as the primary revenue affected by short-term economic changes.

The Committee met with John Hopkins, lead economist with RESI at Towson University who presented the projections of the Institute for the national, state and local economy. Personal income growth is a primary driver of income tax revenue. RESI is projecting

Maryland personal income to grow by 6.5% in 2005 and 4.6% in 2006. Economy.com is projecting Maryland personal income growth of 6.3% in 2005 and 4.6% in 2006. The Bureau of Revenue Estimates in the Maryland Comptroller's Office projects personal income growth of 5.7% in 2005 and 5.6% in 2006. The University of Maryland (Dr. Mahlon Straszheim, Economics Department) forecast is 6.9% for 2005 and 7.3% for 2006. A comparison of macroeconomic forecasts appears in Appendix III.

Mr. Hopkins noted that Howard County personal income generally outperforms the State. Overall, personal income levels are expected to continue their growth and do not show signs of slowing. Economic growth continues to be strong in the County, consequently strong income growth is expected and a six percent or greater increase in personal income appears to be a likely outcome. A forecast of Howard County and Maryland personal income appears in Appendix III.

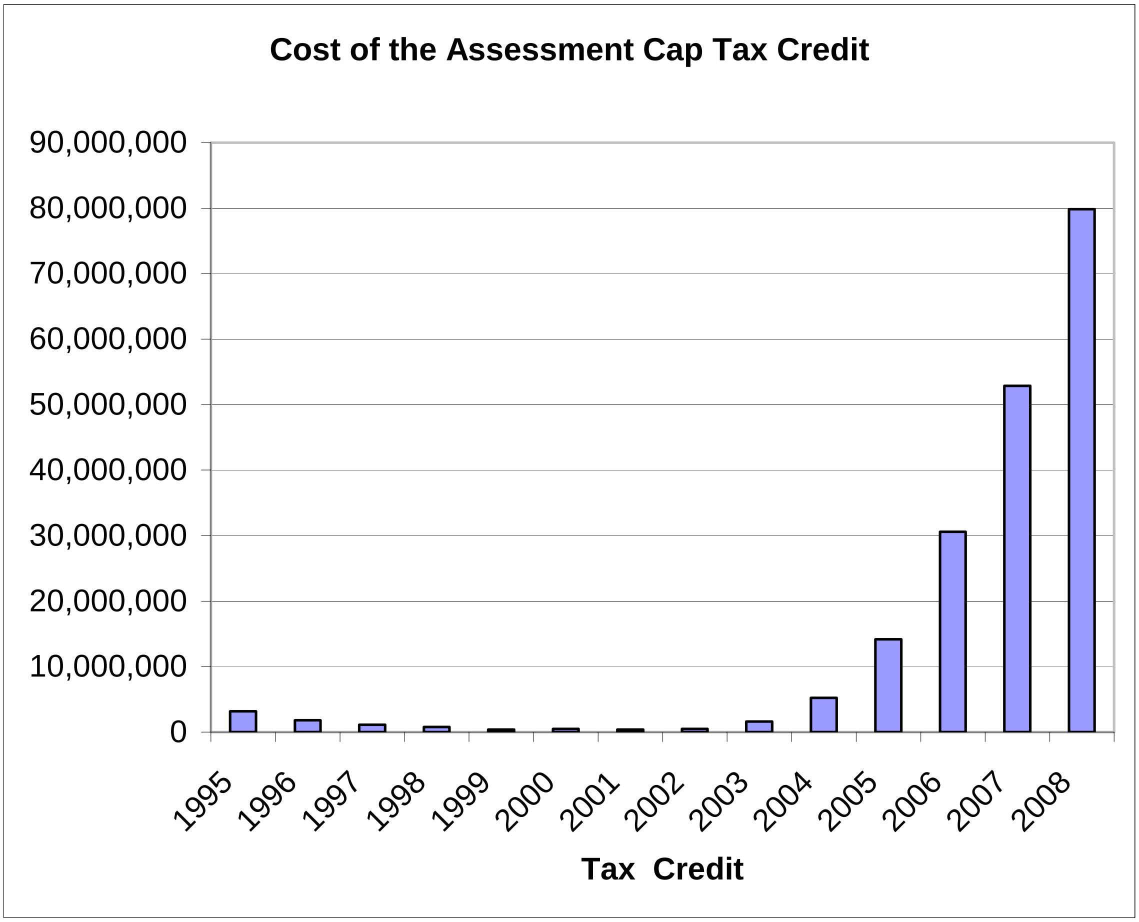
The other revenue source that has provided General Fund revenue growth is the recordation tax, a tax levied on instruments transferring title to real or personal property recorded with the Clerk of the Circuit Court. This revenue source is sensitive to the level of housing activity, and has provided substantial growth in recent times due to the robust housing market. As noted, while there has been some indication of a slowdown in the level of housing activity, this revenue has continued to show growth in FY05 and FY06 to date. In general, based on discussions with economists, business leaders and representatives of the real estate industry, it is expected that while the rate of growth of housing activity may decrease, there is no "bubble" effect which will significantly lower the receipt of revenues from this source.

IV. Revenue Estimates

A. Property Tax - Real Property

Property tax growth is governed by growth in the assessable base of the County. Maryland uses a triennial assessment process. In that process one third of the County is reassessed each year and the assessment adjustment increase is phased in over a three-year period. This means any change in the base occurs in a predictable manner. For the upcoming fiscal year, the properties were assessed in the third assessment area covering the northeastern third of the county, or most of the area east of Rt. 29. The County has in place a five percent annual growth cap on assessment increases that can be taxed in any one year for homeowner occupied properties. If a triennial reassessment increase on a property is more than 15 percent, it will take more than three years to fully phase in the increase. This year the residential portion of the assessable base in the third reassessment area grew by an average of 74 percent from reassessments. This growth will be phased in at 5 percent a year. If these properties remain with the same owner, it will take fifteen years for most of those properties to be fully phased in. During this same time those properties will be assessed up to three more time before this assessment increase is fully implemented. This means the County can expect about a 5 percent increase in the assessable base of this area for at least the next fifteen fiscal years and probably longer. The outlook is for housing prices to continue to increase because of continued low interest rates, and excess demand for housing.

Because the reassessments of existing property for Fiscal 2007 are already complete, most of the real property assessable base has already been determined. The only unknown factor is the amount of new construction that will be added to the base between now and July 1, 2006. Based on a projection of that new growth, the reassessments of existing property, the phase in of reassessed property from previous years, and the new construction that has been added to the base during the past year, the County Budget Office is projecting a full value real property assessable base of $33.4. billion. This is a 17.6 percent increase over last year's base. However, because of the five percent cap on assessment increases the County's revenue growth will not reach these levels. The chart below shows the effect of the five percent cap. It shows how much revenue is being deferred into a future fiscal year as a result of taxes paid at the lower cap adjusted level rather than the full phased in value. The amounts shown for Fiscal Years 2007 and 2008 are estimates.



B. Corporate Personal Property

Corporate Personal Property is the depreciated value of equipment of businesses in the County and the value of property and equipment for railroads and public utilities such as telephone and energy. Corporate spending for new equipment is the largest driving factor of this revenue. Past history indicates this to be a volatile revenue source with large spikes in growth followed by a more normal growth pattern. Because of the economic uncertainty during the past year, corporate spending for new equipment was deferred. This resulted in lower personal property assessments as older equipment continued to depreciate. While corporate spending on replacement equipment is projected to increase as the economy improves, the resulting increase in personal property assessments are expected to lag into the future. Personal property growth for utilities, particularly those associated with telecommunications and long distance markets, has in fact shown declining values. Consequently the Budget Office is projecting that revenue from personal property taxes will grow by only 3.1 percent in Fiscal Year 2007.

Summary- Property Taxes

Overall the total assessable base is projected to increase by 16.64 percent – from $29.802 billion to $34.767 billion. However, because of the phase in of the 5 percent cap, revenues from property taxes are projected to grow by 6.41 percent. A one-cent increase in the tax rate on real property with an equivalent increase in the corporate rate of 2.5 cents will generate an additional $3,681,400 in revenue.

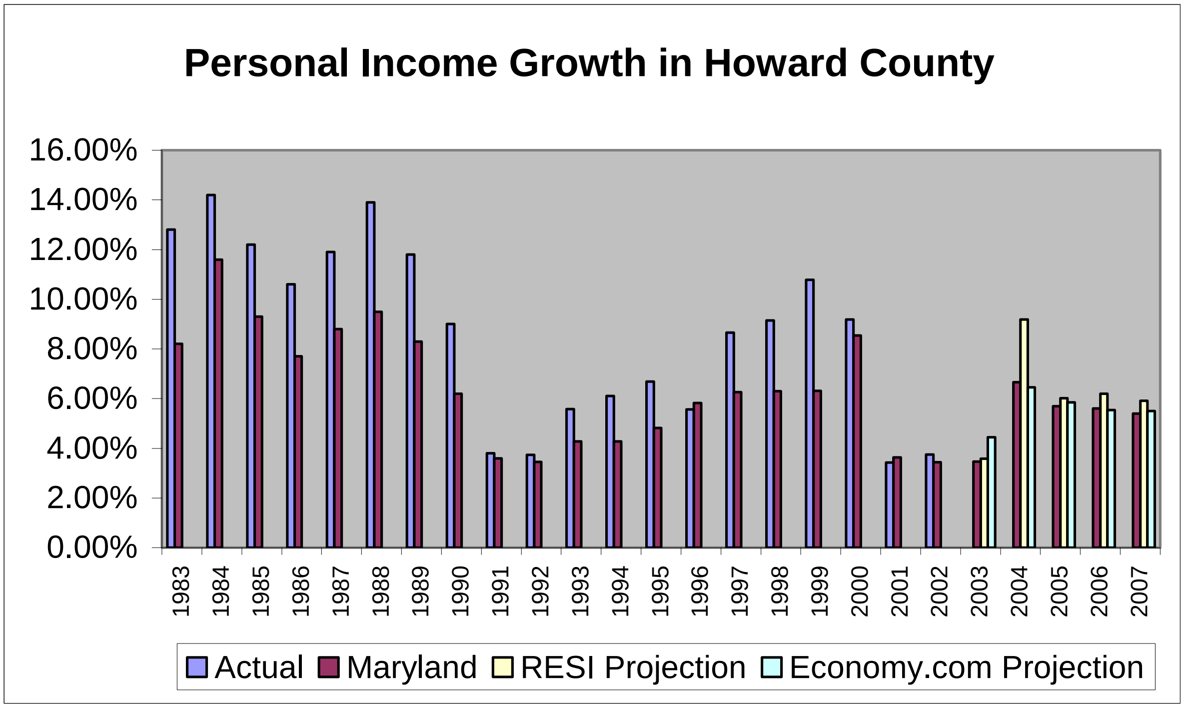
C. Local Income Tax

The local income tax is the most difficult revenue to project and, at the same time, the most important. It is the make or break revenue for the County. This tax is the second largest revenue source in the County and the most economically sensitive. Most of the surpluses the County generated several years ago came from the income tax. Conversely, the revenue shortfalls the County has experienced have occurred because of shortfalls in income tax collections.

Revenue from income tax is derived primarily from two different sources. The first is wages, salaries and commissions paid to Howard County residents, including transfer payments such as social security and pension payments. These types of income are included in the calculation of personal income and are more predictable and easier to project than the other sources. Other sources include interest income, business profits, and capital gains from the sale of property and stocks. These are not included in the calculation of personal income and are more volatile.

In large measure, the budget challenges the County faced during several recent fiscal years were caused by the large decrease in capital gains. In Fiscal Year 2003 the County actually collected 6 percent less in income tax revenue than it had in Fiscal Year 2002. As a result, the County had to contend with a revenue shortfall in Fiscal Year 2004. Prior to the “capital gains bubble” of the late 1990’s growth in personal income was the primary driver of growth in income tax revenue. That bubble is finally gone, and growth in personal income again primarily drives growth in the income tax.

Presented below are two projections for personal income growth in Howard County. The first projection was developed by RESI, and the second by Economy.com. This data includes the last few years of personal income growth in the County and the State. The following chart shows the actual and projected growth in personal income by these two firms.



Based on the available data, the estimate is that personal income in Howard County will grow an average of between 5 percent and 7 percent per year. The revenue model presented to the Committee assumes income tax growth of 6% in FY07.

D. Other Revenues

Property and income taxes make up about 85 percent of the County's general fund revenues. Other local taxes, state revenues, licenses, permits, charges for services, and investment income account for most of the remaining revenues. Over the past several years these other revenues have been relatively stable, and they generally grow as the County expands and with the rate of inflation. The only exception to this rule is the recordation tax. Because in the surge in housing prices and the refinancing boom, the collections from this revenue have more than doubled since Fiscal Year 2000. The Budget Office had assumed, as the refinancing boom cooled, that collection from this revenue would decline. However revenues received to date in Fiscal Year 2006 have demonstrated this revenue continues to grow faster than inflation. After adjusting the estimates to reflect this exception, the County is projecting this category of Other Revenues will grow at about 4 percent a year.

Revenue Summary

Following is a summary of revenues projected for both Fiscal Year 2006 and Fiscal Year 2007 The long-term projections for revenue are shown on the summary page of the model listed in Appendix II.

Summary of Revenue Projections

(Numbers are shown in thousands)

	FY 2006 Budget	FY 2006 Estimated	FY 2007 Projected	Percent Change*
Property Tax	$300,998	$309,739	$324,084	4.63%
Income Tax	264,000	268,525	283,682	5.64%
Other Local Taxes	28,451	32,000	32,240	.75%
State Share Tax	15,176	15,175	15,631	3.00%
Other – see below	27,678	27,676	31,375	13.36%
Investment Income	2,000	2,000	2,500	25.00%
Inter-fund	16,760	16,760	14,293	-14.72%
Subtotal	655,063	671,875	703,805	4.75%
Prior Years	11,190	11,190	11,190	0%
Total	$666,253	$683,065	714,995	4.67%

*FY 2006 Estimate to FY 2007 Projected

Other includes Licenses & Permits, Funds from Other Agencies, Charges, Fines, and miscellaneous.

V. Projected Operating Budget Expenditures

The Committee did not consider specific budget requests or requests to fund unmet operating budget needs from agencies. The Committee understands that inflationary and growth pressures for increases in employee salaries and for increases in operating costs will impact on next year's budget. However, the Committee realizes the decision on how to allocate available resources is not its mission. That is the role the County Executive and County Council play in the budget process.

Instead, the Committee reviewed the Budget Office's growth assumptions and projections for operating budget spending through Fiscal Year 2014 and used those assumptions in a model to project expenditures. Those assumptions are as follows:

1. Education spending would grow at an average pace of seven percent a year.
2. Non-education employee costs would increase at an average pace of five percent per year including cost of living, annual step increase and benefit costs.
3. Costs other than salary and debt service would grow at 4.0 percent a year.
4. Debt Service costs based on a 4.8% interest rate will grow depending on the amount of bonds included in the budget as projected in the model shown in Appendix II. Costs include a bond sale of $90 million in FY06.
5. The County maintains a fund balance sufficient to fill the Rainy Day Fund to mandated levels.

The projection of expenditures and revenues appears on Appendix II. The Committee understands these projections are based on broad assumptions and the actual amount included in the budget for these purposes in any year may be different. Overall, the County will have to keep total spending within these broad projected amounts if the level of bond funding recommended in this report is to be affordable without tax increases.

VI. Conclusions and Recommendations

In the near term, the economic news for Howard County appears to be very good. Economic expansion is taking place, and the housing market remains strong. Driven by government spending on homeland security and defense, and by strong private sector spending led by the expansion of the Dreyer's ice cream plant, commercial real estate construction has continued at a strong pace of growth. Commercial real estate vacancy rates have dropped to previous low levels, and the unemployment rate is so low that a shortage of labor is noted as a potential problem in the County. All of this economic activity should translate into strong revenue growth for the County.

One message that the Committee would like to make is that while the economic news may be good today, the County should not and cannot assume that this level of growth will remain at this level for the longer term. Over that longer-term period, the County must make assumptions on what revenue growth is likely to be and then keep spending within those bounds. There still are limited resources available to fund the County's needs. The Committee understands tough choices and decisions must be made about the capital and operating budgets so affordable levels are maintained. The County has real needs to build, renovate and expand schools and to maintain its infrastructure of roads, storm drains, buildings, facilities and parks. At the same time the County needs to fund operating costs of schools, libraries, parks, public safety services, and public transportation and to pay County employees reasonable and competitive wages. The Committee understands that the more bonds the County issues, the higher debt service payments will be; consequently, fewer funds will be available to pay for those operating costs.

The County has a strong, well-balanced economy that plays a leadership role in the State of Maryland. Factors such as location, wealth, a low crime rate, and a robust quality of life should help to maintain that position. Individuals and families move to the County and pay premium house prices because of the schools and quality of life in Howard County.

Thus the question remains: In order to continue this balance between resources and demands, what level debt can the County afford and how does that translate into bonds authorized in the budget? Using the model in Appendix II, the Committee looked at several different scenarios for future debt levels.

Will the demand for capital expenditures remain level or are we in a "bubble" of capital needs that will decline in the future? In other words, can the County afford a higher level of bond issuance today with the assumption that the levels will decline in the future? Based on a presentation of anticipated enrollment growth in the school system made by Department of Education staff, it appears enrollment will be increasing at a slower rate than in the past, reaching a plateau in the near future that should reduce or eliminate the need for more new schools than have been planned and constructed in more recent school system capital budgets. However, the Committee concluded based on past performance it is unrealistic to expect the need to spend additional dollars on schools will decline.

The Committee concluded, in the short term, as the County enjoys the fruits of a strong economy, and as interest rates remain relatively low, it is possible to leave the level of debt authorized in the budget at last year's level in order to help maintain the high levels of service and quality of life the County now enjoys. However, it was also the clear message of the Committee to the County Executive and County Council that this situation will not exist forever, and future economic changes may require the County to reduce future bond expenses. After looking at several levels of bond authorizations in the model, it became clear that ninety million dollars of new bonds each year supported by general fund revenues was an affordable level if it can keep other current operating spending to the levels projected in the model. The expenditure model is especially sensitive to changes in the level of spending for the Board of Education, the biggest component (54%) of the County budget. The model is based on 7% increases in the Board of Education budget each year from FY2007-2014. Furthermore, the projected revenues do not provide much of a "cushion" in future years when compared to the projected expenditures. The projections provide enough to contribute to the Rainy Day Fund, but very little excess revenue capacity exists. Based on all of the factors considered, the Committee concluded that there was not a significant enough change in conditions from a year ago to warrant changing the recommendation of $90 million in bonds.

The Spending Affordability Committee makes the following recommendations for Fiscal Year 2007:

- **Based on reasonable economic projections, the County's revenues will grow in the long term by between five and seven percent a year. Thus, the County needs to keep average overall annual spending increases to close to that level**.

•The County must carefully monitor expenditures to ensure that spending stays within budgeted levels, and must also continuously monitor revenues to identify any variations from projected levels.

•To the extent there are changes in economic conditions, the assumptions underlying the Committee's recommendations also may change. Consequently, the County must continue to closely monitor economic conditions and to evaluate revenue and expenditures on an ongoing basis.

•The Committee wishes to make a strong statement on spending, that is, the premise of the recommendation on a bond funding level of $90 million is that the other spending assumptions are adhered to. To the extent that those levels deviate from what is assumed in the model, the debt service on the bonds becomes more of an issue in terms of overall affordability.

• If overall spending can be kept to these levels, then the County can authorize up to ninety million dollars in bonds supported by general revenues in the budget each year. The Committee does not see any significant changes in economic conditions when compared to last year which would necessitate deviating from the recommendations of last year.

• These recommendations need to be re-evaluated each year. As the economy cycles through periods of growth and recession, these levels of funding will have to be re-evaluated. This year, there were not enough changes in conditions to warrant major reconsideration of the bond funding level. The Committee believes that next year we will again want to reconsider the assumptions and potentially the recommendations.

Appendix I: Howard County Debt Measures

In order to determine Howard County's relative debt position, the Committee in past years has evaluated Howard County's debt based on measures used and data published by Moody's Investors Service and International City/County Management Association publications. The measures used by the County are as follows:

1. Debt measured as a percent of the County's assessable base. The County Charter limit currently is at 12% of assessed value. Since the State of Maryland has moved from the 40% cash value assessment of real property, to full cash value assessment, to remain consistent with the Charter limitation, County debt should not exceed 4.8% of the full value assessment.
2. Debt measured against the population on a per-capita basis. Per-capita debt of $1,200 (unadjusted for inflation over the past 10 years), which may be considered excessive by rating agencies.
3. Per-capita debt measured as a percent of the jurisdiction's per-capita personal income. This measure should not exceed 10% in the view of many analysts.
4. Debt Service as a percent of current revenues. Ten percent or below is considered an appropriate level, with 15% and above as a danger point

Following is the County's position as of June 30, 2005. [The comparable position for FY 2004 is shown in brackets]

Update of the Bond Affordability Measures

1. **The County's general obligation debt as a percent of the assessable base.**
   As of June 30, 2005[2004], Howard County had an assessable base of **$27,275,980,110**[$24,494,464,388] and a General Obligation Debt of **$490,405,567** [$469,921,278**]** not including excise tax funded debt. This meant that the ratio of debt to base was **1.80%** [1.92%] of assessed value versus the 4.8% limit. This remains below the Charter-mandated limit

2. **Debt measured against the population on a per-capita basis.**
   As of June 30, 2005[04], Howard County had a population of **272,584** [268,561**]** and a General Obligation Debt of **$490,405,567** [$469,921,278] generating a per-capita debt of **$1,799.10** [$1749.77]

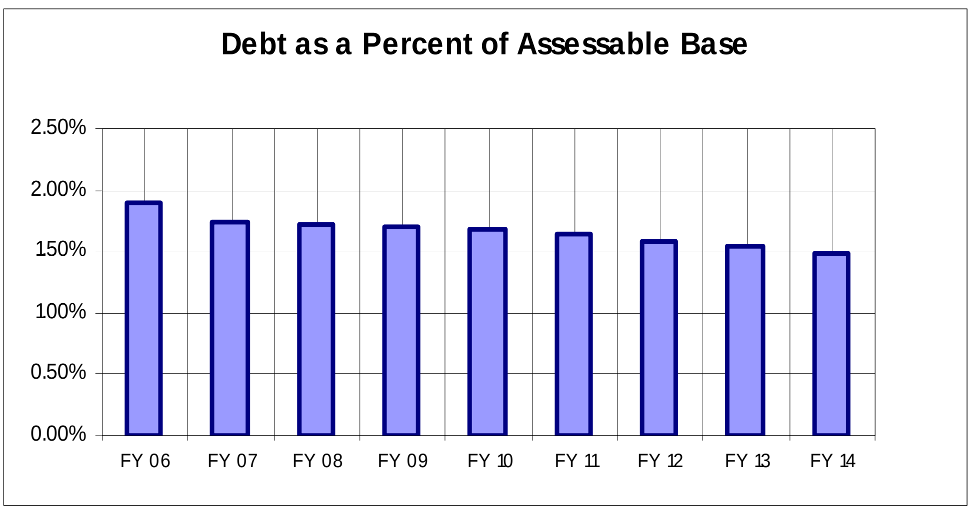
3. **Per-capita debt measured as a percent of per-capita income**.
   For 2005[04], Howard County residents had an estimated per-capita personal income of **52,413**[$51,132] and a per-capita debt of **$1,799.10** [$1,749.77] equaling a per-capita debt of **3.43%** [3.42%] of per-capita income, with 10% being the threshold of concern.

4. **Debt Service as a percent of current revenues**.
   In FY 2005 [04], the County received **$681,064,654** [$603,962,240] in current revenues from the General Fund, Fire and Rescue Fund, and Environmental Fund, and paid debt service of $**60,728,815**[$48,761,500]**.** Thus, debt service equaled **8.92 %** [8.07%] of current revenues. This maintains the County below the 12% level of concern.

Measure #1: Howard County's General Fund Debt as a Percent of the Assessable Base.

Warning Level is: The Charter limit of 4.8% of assessed value at 100%.
(In thousands)

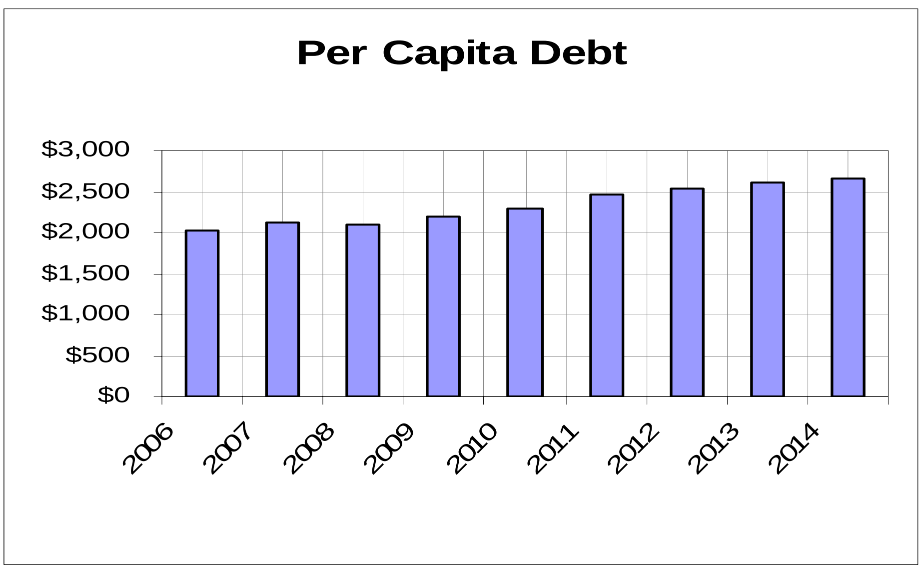
Fiscal Year	County Assessable Base	G.O. Debt at Projected Bonds Sales	Debt as Percent of Base
2006	$29,802,454	563,472,567	1.89%
2007	34,609,671	598,651,567	1.73%
2008	36,859,299	633,880,567	1.72%
2009	39,255,154	667,414,567	1.70%
2010	41,806,739	698,391,567	1.67%
2011	44,524,177	727,466,567	1.63%
2012	47,418,248	753,221,567	1.59%
2013	50,500,434	777,686,567	1.54%
2014	53,782,963	800,826,567	1.49%



Measure #2: Debt Measured Against the Population on a Per-Capita Basis

A Warning Level: General Obligation Debt Per-Capita of greater than $1,200.

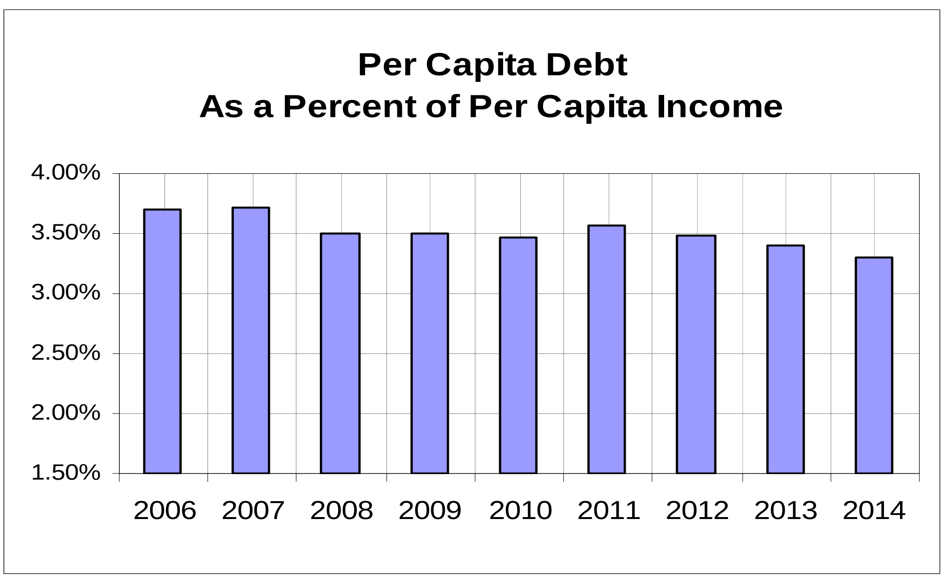
Fiscal Year	Population	Per Capita Debt
2006	276,978	$2,034
2007	280,646	2,133
2008	284,314	2,106
2009	287,982	2,201
2010	291,650	2,288
2011	294,114	2,473
2012	296,578	2,540
2013	299,042	2,601
2014	302,442	2,648



Measure # 3: Per-Capita General Obligation Debt Measured As a Percent of Per-Capita Personal Income

A Warning Level Is: Per-Capita Debt that is equal to 10% of the per capita income for the County.

Fiscal Year	Population	Personal Income (thousands) (estimates)	Per-Capita Debt as a Percent of Per Capita Income
2006	276,978	$15,213,000	3.70%
2007	280,646	16,112,000	3.72%
2008	284,314	17,099,000	3.50%
2009	287,982	18,124,940	3.50%
2010	291,650	19,212,436	3.47%
2011	294,114	20,365,182	3.57%
2012	296,578	21,587,093	3.49%
2013	299,042	22,882,319	3.40%
2014	302,442	24,255,258	3.30%

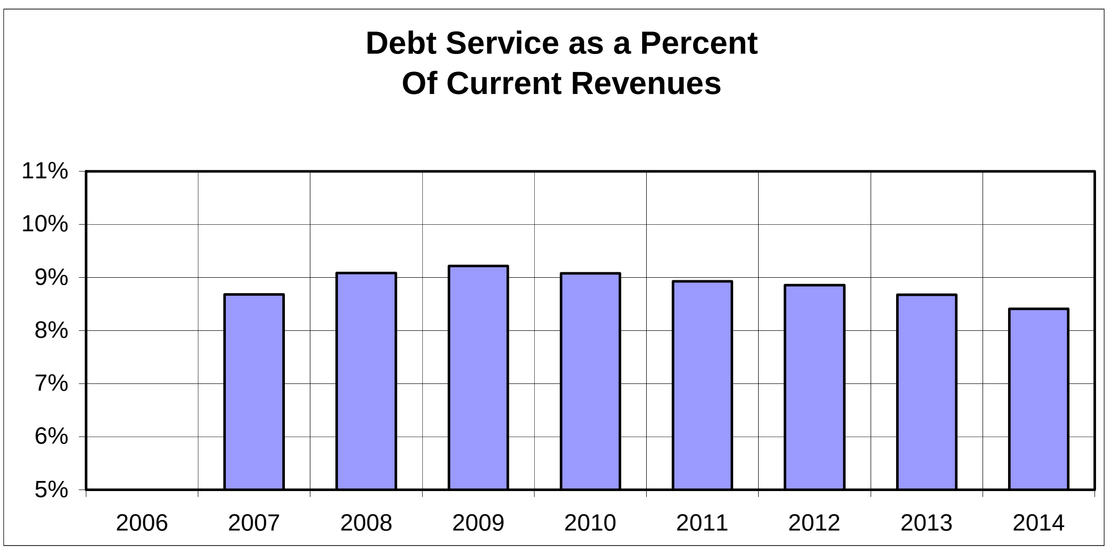


Measure #4: General Obligation Debt Service as a Percent of Current Revenue

A Warning Level is: Debt service as a percent of current revenues more than 15%. In the past reports, Howard County has used 12% as a target level. The Following Chart indicates the impact of approving nearly $90 million per year of bonds in the capital budget.

(Numbers are in thousands.)

Fiscal Year	Projected Current Revenue	Projected Bond Sales	Projected Debt Service	Percent of Revenue
2006	$723,547,276	$90,000,000	$65,594,358	9.07%
2007	774,808,192	78,000,000	67,277,739	8.68%
2008	819,356,672	82,000,000	74,441,665	9.09%
2009	866,570,149	85,000,000	79,865,923	9.22%
2010	916,619,121	86,000,000	83,208,807	9.08%
2011	969,734,412	88,000,000	86,565,833	8.93%
2012	1,026,047,976	88,000,000	90,881,449	8.86%
2013	1,085,756,346	89,000,000	94,200,065	8.68%
2014	1,149,068,263	89,000,000	96,611,018	8.41%



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Appendix II:

Howard County Revenue/Expenditure Growth Projection Model

Education Growth Rate	7.00%
Property Tax Growth Rate	6.50%
Income Tax Growth Rate	6.00%
Other Taxes Growth Rate	4.00%
3%	
Bond Interest Rate	4.80%

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Bond Sale	70,000,000	78,000,000	82,000,000	85,000,000	86,000,000	88,000,000	88,000,000	89,000,000	89,000,000
Bonds in Budget	85,281,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
Debt Service	60,894,165	67,277,739	74,441,665	79,865,923	83,208,807	86,565,833	90,881,449	94,200,065	96,611,018
TOTAL General Fund BUDGET	666,253,400	706,446,834	751,590,397	797,767,310	843,992,148	893,748,782	946,521,084	1,003,114,758	1,066,511,446
Revenue	683,065,000	714,995,059	756,620,732	800,755,992	847,555,203	897,182,335	949,811,565	1,005,627,916	1,064,827,937
Difference	16,811,600	8,548,225	5,030,336	2,988,682	3,563,055	3,433,553	3,290,481	2,513,159	(1,683,508)
Expenditure Percentage Increase	10.58%	6.03%	6.39%	6.14%	5.79%	5.90%	5.90%	5.98%	6.32%
Revenue Percentage Increase	5.10%	7.32%	5.82%	5.83%	5.84%	5.86%	5.87%	5.88%	5.89%

Revenue Estimates--Summary

Revenue	Audited FY05	Approved FY06	Estimated FY07	Projected FY08	Projected FY09	Projected FY10	Projected FY11	Projected FY12	Projected FY13	Projected FY14
Property Taxes	$ 288,765,543	300,998,157	324,084,189	345,149,661	367,584,389	391,477,375	416,923,404	444,023,425	472,884,948	503,622,469
Income Tax	252,524,787	264,000,000	283,682,500	300,703,450	318,745,657	337,870,396	358,142,620	379,631,177	402,409,048	426,553,591
Other Local Taxes	30,451,928	28,451,000	32,240,000	33,529,600	34,870,784	36,265,615	37,716,240	39,224,890	40,793,885	42,425,641
State Shared Taxes	12,540,562	15,175,994	15,631,274	16,100,212	16,583,219	17,080,715	17,593,137	18,120,931	18,664,559	19,224,495
Other--See Below	26,479,754	38,867,547	40,096,394	41,299,286	42,538,264	43,814,412	45,128,845	46,482,710	47,877,191	49,313,507
Investment Income	3,892,896	2,000,000	2,500,000	2,575,000	2,652,250	2,731,818	2,813,772	2,898,185	2,985,131	3,074,685
Interfund Reimbursements	19,256,080	16,760,702	16,760,702	17,263,523	17,781,429	18,314,872	18,864,318	19,430,247	20,013,155	20,613,549
General Fund Revenue	**$ 633,911,550**	**$ 666,253,400**	**$ 714,995,059**	**$ 756,620,732**	**$ 800,755,992**	**$ 847,555,203**	**$ 897,182,335**	**$ 949,811,565**	**$ 1,005,627,916**	**$ 1,064,827,937**

Notes:
1. Other includes Licenses & Permits, Funds Other Agencies, Charges for Services, Fines/Forfeitures, Money & Property, Appropriation Prior Year.
2. FY05 is the audited amount.
3. Property tax revenue growth rate is estimated at 6.50%.
4. Income tax revenue growth rate is estimated at 6.0%.
5. All other revenues grow at a rate of 3.00%.

General Fund Forecast - FY05 thru FY14 as of 12/05

EDUCATION	FY04 Actual	FY05 Audit	FY06 Budget	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Board Of Education	310,590,015	334,590,015	362,590,015	387,971,316	415,129,308	444,188,360	475,281,545	508,551,253	544,149,841	582,240,330	622,997,153
Debt Service	-	-	-	-	-	-	-	-	-	-	-
Community College	14,865,344	15,925,918	17,060,732	18,254,983	19,532,832	20,900,130	22,363,139	23,928,559	25,603,558	27,523,825	29,588,112
Debt Service	-	-	-	-	-	-	-	-	-	-	
SUBTOTAL:	**325,455,359**	**350,515,933**	**379,650,747**	**406,226,299**	**434,662,140**	**465,088,490**	**497,644,684**	**532,479,812**	**569,753,399**	**609,764,155**	**652,585,267**
PUBLIC SAFETY											
Department of Police	49,173,654	55,523,745	62,936,891	66,028,981	69,147,336	72,294,592	75,473,677	78,652,762	81,831,847	85,628,845	89,602,023
Department of Corrections	8,947,868	9,929,916	11,573,979	12,111,012	12,672,963	13,260,988	13,876,298	14,520,158	15,193,893	15,898,890	16,636,599
SUBTOTAL:	58,121,522	65,453,661	74,510,870	78,139,993	81,820,299	85,555,580	89,349,975	93,172,920	97,025,741	101,527,735	106,238,622
PUBLIC FACILITES											
Dept. Of Public Works	33,805,017	36,135,432	38,311,188	39,916,427	41,588,925	43,331,501	45,147,091	47,038,754	49,009,678	51,063,183	53,202,731
Insp. Licenses & Permits	4,692,256	5,307,816	6,185,821	6,477,482	6,782,896	7,102,709	7,437,602	7,788,285	8,155,503	8,540,035	8,942,697
Department of Planning & Zoning	4,327,331	4,589,303	5,380,077	5,634,555	5,901,069	6,180,190	6,472,513	6,778,662	7,099,293	7,435,090	7,786,770
Soil Conservation	577,714	607,060	681,555	713,895	747,769	783,251	820,416	859,345	900,121	942,831	987,569
Subtotal	43,402,318	46,639,611	50,558,641	52,742,359	55,020,659	57,397,651	59,877,622	62,465,046	65,164,594	67,981,139	70,919,766
COMMUNITY SERVICES											
Citizen Services	4,673,269	5,219,510	5,932,590	6,199,557	6,478,537	6,770,071	7,074,724	7,393,087	7,725,775	8,073,435	8,436,740
Health Department	6,807,418	6,446,128	6,875,085	7,287,590	7,724,846	8,188,336	8,679,636	9,200,415	9,752,439	10,337,586	10,957,841
Mental Health Authority	193,391	233,094	249,411	256,893	264,600	272,538	280,714	289,136	297,810	306,744	315,946
Transportation Svcs/Coordination	7,710,219	4,053,555	4,749,333	4,891,813	5,038,567	5,189,724	5,345,416	5,505,779	5,670,952	5,841,081	6,016,313
Cooperative Extension	311,271	325,751	355,154	369,023	383,433	398,406	413,964	430,129	446,926	464,378	464,378
Dept. Of Library	10,191,592	10,837,558	11,731,497	12,318,072	12,933,975	13,580,674	14,259,708	14,972,693	15,721,328	16,507,394	17,332,764
Grants - in - Aid	3,272,626	3,309,890	3,607,091	3,715,304	3,826,763	3,941,566	4,059,813	4,181,607	4,307,055	4,436,267	4,569,355
Social Services	434,255	431,006	465,137	481,905	499,278	517,277	535,925	555,245	575,261	595,999	617,485
Recreation & Parks	9,446,474	10,394,087	11,415,138	11,907,130	12,420,328	12,955,644	13,514,032	14,096,487	14,704,046	15,337,790	15,998,849
Subtotal	43,040,515	41,250,579	45,380,436	47,427,287	49,570,327	51,814,236	54,163,932	56,624,577	59,201,593	61,900,675	64,709,671
GENERAL GOVERNMENT											
County Executive	608,366	645,753	723,125	757,329	793,150	830,666	869,957	911,106	954,201	999,335	1,046,604
County Administration	7,218,265	7,429,592	8,469,648	8,855,017	9,257,920	9,679,156	10,119,557	10,579,997	11,061,387	11,564,680	12,090,873
Dept. Of Finance	4,818,314	5,107,918	6,076,508	6,341,140	6,617,297	6,905,480	7,206,213	7,520,044	7,847,542	8,189,302	8,545,947
Office Of Law	2,283,690	2,440,659	2,710,891	2,843,182	2,981,930	3,127,448	3,280,067	3,440,135	3,608,013	3,784,084	3,968,748
Economic Development	759,601	839,708	902,321	943,828	987,244	1,032,657	1,080,159	1,129,847	1,181,820	1,236,183	1,293,048
Technology & Communication	851,655	1,014,727	1,207,426	1,256,568	1,307,711	1,360,934	1,416,324	1,473,969	1,533,959	1,596,391	1,661,365
Performance Awards	-	-	500,000	500,000	500,000	500,000	500,000	500,001	500,003	500,006	500,006
Tuition Reimbursement	-	74,961	75,000	75,000	75,000	75,000	75,000	75,001	75,003	75,006	75,006
Subtotal	16,539,891	17,553,318	20,664,919	21,572,064	22,520,251	23,511,341	24,547,279	25,630,099	26,761,928	27,944,989	29,181,595
CAPITAL / RESERVES											
Paygo Funds	926,429	5,200,224	16,393,001	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000
Debt Service	48,761,500	60,728,815	60,894,165	67,277,739	74,441,665	79,865,923	83,208,807	86,565,833	90,881,449	94,200,065	96,611,018
Contigency Reserves	-	-	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Rainy Day Fund Payment	-	-	-								
Subtotal	49,687,929	65,929,039	78,787,166	82,277,739	89,441,665	94,865,923	98,208,807	101,565,833	105,881,449	109,200,065	111,611,018
LEGISLATIVE & JUDICIAL											
County Council	2,299,669	2,490,482	2,816,554	2,949,777	3,089,301	3,235,425	3,388,461	3,548,735	3,716,590	3,892,385	4,076,495
Circuit Court	2,002,475	1,944,276	1,893,281	1,978,005	2,066,521	2,158,998	2,255,613	2,356,552	2,462,007	2,572,182	2,687,287
State's Attorney	4,395,612	4,775,820	5,402,557	5,666,202	5,942,712	6,232,717	6,536,873	6,855,873	7,190,439	7,541,333	7,909,350
Orphans Court	39,235	39,759	54,222	54,764	55,312	55,865	56,424	113,411	341,369	1,368,888	6,858,129
Sheriff	4,204,984	4,238,249	4,953,090	5,181,427	5,420,291	5,670,167	5,931,561	6,205,006	6,491,057	6,790,295	7,103,327
Board of Elections	1,223,608	1,684,801	1,580,917	2,230,917	1,980,917	2,180,917	2,030,917	2,730,917	2,530,917	2,630,917	2,630,917
Subtotal	14,165,583	15,173,387	16,700,621	18,061,093	18,555,055	19,534,089	20,199,849	21,810,495	22,732,380	24,796,000	31,265,506
TOTAL General Fund BUDGET	550,413,117	602,515,528	666,253,400	706,446,834	751,590,397	797,767,310	843,992,148	893,748,782	946,521,084	1,003,114,758	1,066,511,446
Revenue	561,182,689	633,911,550	666,253,400	714,995,059	756,620,732	800,755,992	847,555,203	897,182,335	949,811,565	1,005,627,916	1,064,827,937
Difference	**10,769,572**	**31,396,022**	**-**	**8,548,225**	**5,030,336**	**2,988,682**	**3,563,055**	**3,433,553**	**3,290,481**	**2,513,159**	**(1,683,508)**
Expenditure Percentage Increase		9.47%	10.58%	6.03%	6.39%	6.14%	5.79%	5.90%	5.90%	5.98%	6.32%
Revenue Percentage Increase		12.96%	5.10%	7.32%	5.82%	5.83%	5.84%	5.86%	5.87%	5.88%	5.89%

Notes: Education cost increases by 7% per year and debt service interest rate is 4.00%

BOND AFFORDABILITY COMMITTEE
GENERAL COUNTY BONDS
PROJECTED DEBT SERVICE
Debt Measure #4 Debt as a Percent of Current Revenues

Interest rate	4.80%												
		Fiscal Year		FY05 ------	FY06 ------	FY07 ------	FY08 ------	FY09 ------	FY10 ------	FY11 ------	FY12 ------	FY13	FY14
Current debt service:													
Principal		Principal		36,754,000	34,979,000	38,705,003	38,050,000	37,580,650	35,272,525	34,875,000	33,795,000	31,685,000	28,560,000
Interest		Interest		22,757,000	21,214,000	18,693,874	17,573,979	17,043,990	16,036,392	13,054,000	11,556,000	10,091,000	8,655,000
Total		Current Debt Service		59,511,000	56,193,000	57,398,877	55,623,979	54,624,640	51,308,917	47,929,000	45,351,000	41,776,000	37,215,000
Projected debt service:													
Spring 04 Bond Sale	50,000,000				-	-	-	-	-	-	-	-	-
Spring 05 Bond Sale	63,000,000				4,841,350	-	-	-	-	-	-	-	-
Spring 06 Bond Sale	90,000,000					7,050,289	7,050,289	7,050,289	7,050,289	7,050,289	7,050,289	7,050,289	7,050,289
Spring 07 Bond Sale	78,000,000						6,110,251	6,110,251	6,110,251	6,110,251	6,110,251	6,110,251	6,110,251
Spring 08 Bond Sale	82,000,000							6,423,597	6,423,597	6,423,597	6,423,597	6,423,597	6,423,597
Spring 09 Bond Sale	85,000,000								6,658,607	6,658,607	6,658,607	6,658,607	6,658,607
Spring 10 Bond Sale	86,000,000									6,736,943	6,736,943	6,736,943	6,736,943
Spring 11 Bond Sale	88,000,000										6,893,616	6,893,616	6,893,616
Spring 12 Bond Sale	88,000,000											6,893,616	6,893,616
Spring 13 Bond Sale	89,000,000												6,971,953
Spring 14 Bond Sale	89,000,000												
new Debt:	70,000,000												
	888,000,000		0										
Subtotal New Debt			0	-	4,841,350	7,050,289	13,160,540	19,584,137	26,242,744	32,979,687	39,873,303	46,766,919	53,738,872
Total Projected Debt Service			0	59,511,000	61,034,350	67,277,739	74,441,665	79,865,923	83,208,807	86,565,833	90,881,449	94,200,065	96,611,018

Howard County, Maryland
Projected Future Bond Sales

Fiscal Year	Authorized But UnSold Bonds	+	Current Year Budget	=	Total Unsold Bonds at Start of Fiscal Year	New Debt Sold (Excl Excise)		Sold as % of Total
2013-2014	172,706,779		90,000,000		262,706,779	89,320,305	173,386,474	34%
2012-2013	171,676,938		90,000,000		261,676,938	88,970,159	172,706,779	34%
2011-2012	170,116,572		90,000,000		260,116,572	88,439,635	171,676,938	34%
2010-2011	167,752,382		90,000,000		257,752,382	87,635,810	170,116,572	34%
2009-2010	164,170,276		90,000,000		254,170,276	86,417,894	167,752,382	34%
2008-2009	158,742,842		90,000,000		248,742,842	84,572,566	164,170,276	34%
2007-2008	150,519,458		90,000,000		240,519,458	81,776,616	158,742,842	34%
2006-2007	138,059,785		90,000,000		228,059,785	77,540,327	150,519,458	34%
2005-2006	123,223,541		85,281,000		208,504,541	70,444,756	138,059,785	34%
2004-2005	108,030,131		78,068,000		186,098,131	62,874,590	123,223,541	34%
			703,349,000					
Actuals:								
2003-2004	69,002,215		79,362,000		148,364,215	40,334,084	108,030,131	27%
2002-2003	76,140,215		47,862,000		124,002,215	55,000,000	69,002,215	44%
2001-2002	66,206,705		43,352,000		109,558,705	33,418,490	76,140,215	31%
2000-2001	61,687,705		27,039,000		88,726,705	22,520,000	66,206,705	25%
1999-2000	67,222,705		25,000,000		92,222,705	30,535,000	61,687,705	33%
1998-1999	62,855,705		29,367,000		92,222,705	25,000,000	67,222,705	27%
1997-1998	81,224,705		27,631,000		108,855,705	46,000,000	62,855,705	42%
						Average		34%

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